



International Trade

Chapter 4 Section 1

The Global Marketplace



What you'll learn:

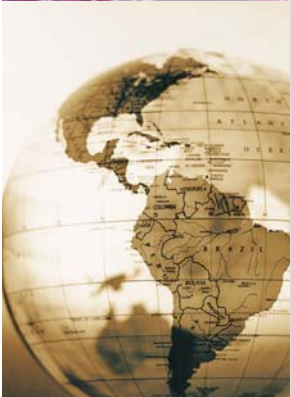
- The interdependence of nations
- The benefits of international trade
- Government involvement in International trade
- Balance of trade
- Trade barriers
- Trade agreements and alliances

International Trade



- Involves the exchange of goods and services between nations.
- Imports are goods and services purchased from other countries
- Exports are goods and services sold to other countries.

Interdependence of Nations

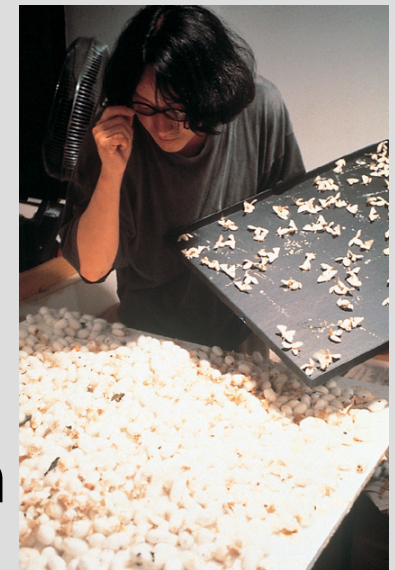


- **Interdependence occurs because each nation possesses unique resources and capabilities.**
- **Other nations may have a shortage of something that another has an abundance of.**

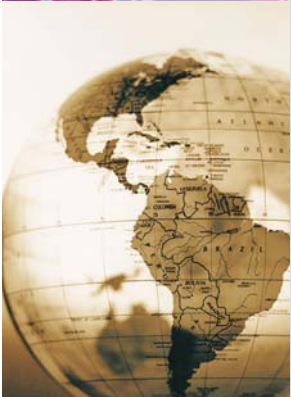
Absolute Advantage



- When a country has a natural resource or ability that allow it to produce a product at the lowest cost possible.
 - Example: China produces nearly 80% of all silk.
- Trade is still valuable even when absolute advantage does not exist.



Comparative Advantage



- The value that a nation gains by selling the goods that it produces most efficiently.
 - Examples: High tech equipment and goods may be produced in the U.S. or Japan.
 - Products that are labor intensive may be produced in emerging nations giving them a comparative advantage.

Example:



- Wal-Mart's influence on China
- An abundance of cheap labor gives China the advantage.
- China is now the major producer of TV's and other electronic equipment.



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Benefits of International Trade



- Consumers benefit because they can get high-quality goods at lower prices.
- Producers have places to expand business.
- Workers have jobs created by trade.
- Economic alliances help to build political alliances.

Government Involvement



- All nations control and monitor their trade with foreign businesses.

Balance of Trade



- The difference in value between exports and imports of a nation
- Trade Deficit – importing more than exporting
- Trade Surplus – exporting more than importing

Effects of Deficit



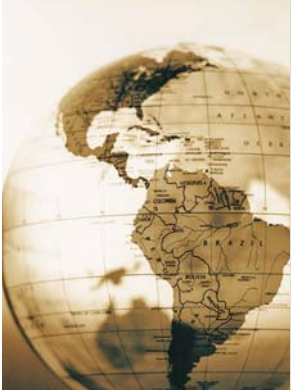
- **Reduces a nations revenue and becomes a debtor nation.**

- Weaker currency

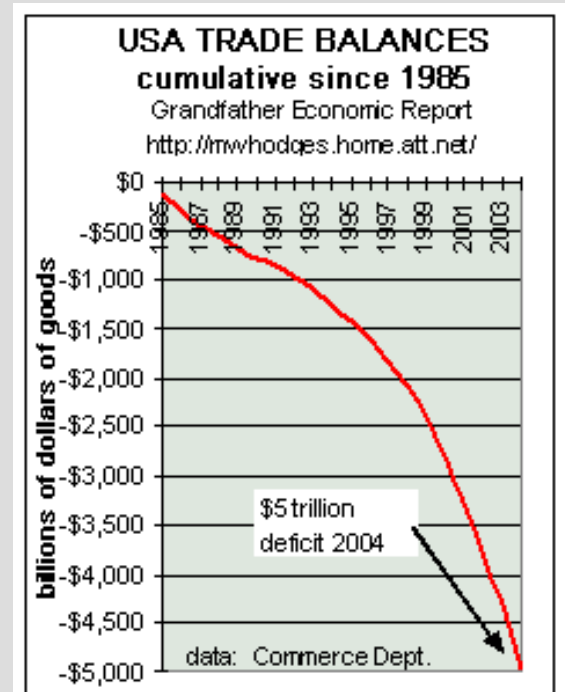


- **Increased unemployment**

- Foreign workers take business away



- **More competition for domestic businesses**



Trade Barriers



- **Free Trade – Many countries around the world favor and practice free trade.**
- **Trade restrictions imposed by a nation's government.**
- **Three types:**
 - **Tariffs**
 - **Quotas**
 - **Embargos**

Tariff



- **Sometimes called a duty**
- **A tax on an import**



Quotas



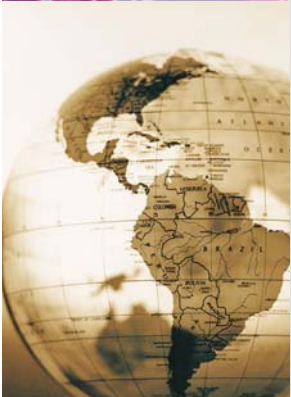
- A restriction on the quantity or monetary value of a product that may be imported.

Embargo



- **A total ban on specific goods coming into or leaving a nation.**
 - **Health reasons**
 - **Political reasons -political embargos can last a long time.**

The World Trade Organization WTO



- **Coalition of 148 countries**
- **Governs International Trade**
- **Formed in 1995**
- **Succeeded GATT**
- **Created by GATT to police agreements and resolve disputes.**
- **Addresses intellectual property rights, investment, and services.**

North American Free Trade

Agreement (NAFTA)

- Agreement between U.S., Mexico, and Canada.
- January 1, 1994
- Goal is to get rid of all trade barriers and investment restrictions among the three countries by 2009.
- Increased trade with Mexico
- Eliminated tariffs on more than 4,500 products.



European Union (EU)



- **Single currency for all member nations**
- **Free trade among members**
- **Created a central bank**
- **Strengthened currency of most nations.**
- **United members as a trading bloc.**